GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:2173
ANSWERED ON:28.07.2017
Initial Public Offerings
Reddy,Kotha Prabhakar

Will the Minister of FINANCE be pleased to state:

(a) whether the Government/ Securities and Exchange Board of India has noticed a mismatch between the stated purpose of the Initial Public Offerings (IPOs) and its end use, if so, the details thereof;
(b) whether the Government is contemplating on bringing a proposal to make it compulsory for all companies to appoint monitoring agencies to ensure proper utilisation of IPO money; and
(c) if so, the details thereof ?

Answer

The Minister of Finance in the Ministry of Finance (Shri Arjun Ram Meghwal)

(a): As per the provisions of Sections 13(8) and 27 of Companies Act, 2013, a company may vary the objects of a public issue by passing a special resolution and providing an exit option to dissenting shareholders who have not agreed to the proposal to vary the objects of the issue.

The regulatory framework under SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 (ICDR Regulations) and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR Regulations) provides for a disclosure based regime.

In terms of Regulation 32 of LODR Regulations, the listed entities are required to submit periodic reports to stock exchange indicating deviations, if any in the use of proceeds from the objects stated in the offer document for public issue, rights issue, preferential issue etc., along with any comments or report received from the monitoring agency in case of public or rights issues.

Further, in terms of Regulation 16(4) of ICDR Regulations, the issuer shall, within forty five days from the end of each quarter, publically disseminate the report of the monitoring agency by uploading the same on its website as well as submitting the same to the stock exchange(s) on which its equity shares are listed.

Such disclosures/ reports filed with the exchanges are disseminated on the websites of stock exchanges. There is no requirement for listed entities to submit such information/ reports or copies thereof to SEBI.

SEBI has also taken several enforcement actions where the actual usage of IPO proceeds has differed with the issue objects.

(b) and (c): Earlier, the ICDR Regulations, required mandatory appointment of Monitoring Agency for monitoring the utilization of the funds raised if the issue size of specified securities exceeds INR 500 crore.

In order to further strengthen the monitoring of issue proceeds raised in IPOs/ Follow on Public Offers (FPOs)/ Rights Issues, SEBI has recently amended ICDR Regulations for mandatory appointment of Monitoring Agency where the issue size (excluding offer for sale component) is more than INR 100 crore.

At present, there is no proposal to make it compulsory for all listed companies to appoint Monitoring Agency.

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